LEGISLATIVE SERVICES AGENCY

OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7122 **NOTE PREPARED:** Jan 5, 2009
BILL NUMBER: SB 409 **BILL AMENDED:**

SUBJECT: Income Tax Deduction.

FIRST AUTHOR: Sen. Sipes **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: This bill provides physicians with an Adjusted Gross Income Tax deduction for the difference between the Medicare reimbursement rate and the Medicaid reimbursement rate for physician services provided to patients and reimbursed by Medicaid.

Effective Date: January 1, 2009 (retroactive).

Explanation of State Expenditures: The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new tax deduction. The Department's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary* - This bill provides an Adjusted Gross Income (AGI) Tax deduction to physicians that is equal to the difference between the Medicare reimbursement rate and the Medicaid reimbursement rate for services reimbursed by Medicaid. The deduction is effective for tax years beginning January 1, 2009. The tax deduction could potentially reduce revenue to the General Fund by $7.9 M beginning in FY 2010, and years after.

Background Information - Medicaid is a jointly funded state and federal program. Funding for direct services is reimbursed at approximately 63% by the federal government, while the state share is about 37%. The Office of Medicaid Policy and Planning has estimated that the difference between the Medicare reimbursement rate and the Medicaid reimbursement rate for physician services reimbursed by Medicaid in FY 2008 was $233.4 M. (The state General Fund share of the $233.4 M would be approximately $87.1M.) This estimate does not include any adjustments for an increase in the utilization of physician services.

Assuming that all eligible taxpayers claim the deduction, deductions in the amount of $233.4 M would reduce General Fund revenue by $7.9 M. The tax deduction is effective for tax year 2009, so the impact should occur in FY 2010. Revenue from the AGI Tax on individuals is distributed in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the deduction would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

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